

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7336

Petition of Central Vermont Public Service Corporation)
for approval of an alternative-regulation plan)

Order entered: 2/12/2009

ORDER MODIFYING ALTERNATIVE REGULATION PLAN

I. INTRODUCTION

In this Order, we approve modifications to Central Vermont Public Service Corporation's ("CVPS") Alternative Regulation Plan ("Plan") as filed with the Board on February 2, 2009. These modifications allow CVPS to treat the costs it incurred to restore service in response to the extraordinary storm that struck portions of its service territory in December 2008 as an "exogenous factor" under the Earnings Sharing Adjustment Mechanism provided for in the Plan.

II. PROCEDURAL HISTORY

On February 2, 2009, CVPS filed a motion for approval to amend the Plan or, in the alternative, for an accounting order for the December 2008 storm costs. CVPS's motion was accompanied by an Affidavit of Pamela J. Keefe ("Keefe Affidavit").

On February 3, 2009, the Vermont Department of Public Service ("DPS") filed a letter supporting CVPS's request to amend the Plan.

No other party filed comments on CVPS's motion.

III. FINDINGS

1. CVPS's Alternative Regulation Plan includes an Earnings Sharing Adjustment Mechanism ("ESAM") which provides for an annual reconciliation of CVPS's actual earnings against its allowed return on equity to determine whether there is a revenue shortfall or excess to be shared with ratepayers. Order of 9/30/08 at 15 (finding 46).

2. The ESAM includes a provision for so-called "exogenous costs" such as changes in Generally Accepted Accounting Principles, tax laws, Federal Energy Regulatory Commission

rules or Independent System Operator-New England rules, load loss, extended or permanent loss or de-rate of major purchased power sources, and major unplanned investment costs or operations and maintenance expenses due to storms. Order of 9/30/08 at 17 (finding 63).

3. If such exogenous costs accumulate to more than \$600,000 in a year, then the amount above \$600,000 would be incorporated into the ESAM adjustment process as a variance that is either positive or negative, depending on the case. Order of 9/30/08 at 17 (finding 64).

4. In the case of unplanned costs due to storms, such costs would not qualify as exogenous costs until they exceeded the storm-damage allowance included in CVPS's base rates. Order of 9/30/08 at 18 (finding 66).

5. In December 2008, portions of CVPS's service territory in central, southeastern and southern Vermont experienced an extraordinary ice storm. During this storm, over 31 percent of CVPS's customers lost service, including 42.7 percent of customers in the Royalton District, 62.7 percent of customers in the Brattleboro District, and 70 percent in the Springfield District. Keefe Affidavit at 1-2.

6. CVPS incurred an estimated \$4.639 million of incremental expenditures (defined as contractor costs, overtime payroll, meals and related expenses) to restore service as a result of the December 2008 ice storm. The 2008 ice storm is the most expensive storm-restoration effort ever undertaken by CVPS. Keefe Affidavit at 2, 5 and Appendix 1.

7. The December 2008 incremental extraordinary storm costs represent approximately 30 percent of CVPS's estimated 2007 Vermont jurisdictional utility net income. Keefe Affidavit at 5.

8. CVPS's total 2008 incremental overhead service-restoration costs, including costs associated with the December 2008 ice storm, are estimated to be \$8.260 million. This exceeds CVPS's five-year average for such costs (as reflected in CVPS's cost-of-service in the amount of \$2.953 million) by more than \$5.307 million. Keefe Affidavit at 2.

9. CVPS's estimated December 2008 extraordinary storm costs will be trued up to actual when actual costs are known to CVPS. Such costs will be reduced by any receipts received from third parties for storm-restoration services provided to those third parties, as well as any insurance or disaster relief received by CVPS. Keefe Affidavit at 2.

IV. DISCUSSION AND CONCLUSION

The Board has often allowed electric utilities to defer, and ultimately recover from ratepayers, costs associated with restoring service after extraordinary storms. Severe weather is outside utility management's control, and it is in the public interest for utilities to restore service to its ratepayers as soon as it can safely be done.

The ice storm experienced by CVPS during December 2008 clearly meets the threshold for an extraordinary storm. Tens of thousands of customers lost service as a result of the storm, and the costs of restoring service to those customers significantly exceeded the amount for storm-restoration costs included in CVPS's rates.

The December 2008 ice storm presents a unique situation because of the timing of the implementation of CVPS's Alternative Regulation Plan. The Plan includes a mechanism for allowing CVPS to recover costs associated with extraordinary storms — such costs are an exogenous cost under the ESAM. However, our October 23, 2008, Order in this proceeding clarified that while the Plan became effective on November 1, 2008, the Earnings Sharing Adjustment Mechanism measurement period would begin on January 1, 2009. Thus, the December 2008 ice storm falls outside the time period for the first ESAM calculation.

CVPS proposed two alternatives for addressing this situation: (1) amend the Plan to allow it to use the exogenous factor portion of the ESAM to recover costs associated with the December 2008 ice storm; or (2) grant CVPS an accounting order, allowing CVPS to defer the costs associated with the December 2008 ice storm for future recovery from ratepayers. The DPS supports the first of these alternatives.

We are persuaded that CVPS's proposed amendment to the Plan is the appropriate method for addressing this situation. We have used accounting orders in the past when CVPS and other utilities who were not operating under alternative regulation plans incurred extraordinary storm-restoration costs. However, since CVPS's Plan does include a mechanism for handling exogenous costs, such as extraordinary storm-restoration costs, we conclude it is reasonable to modify the Plan to allow this mechanism to apply to the costs of the December 2008 ice storm. Therefore, we approve CVPS's proposed modifications to the Plan.

V. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The modifications to Central Vermont Public Service Corporation's ("CVPS") Alternative Regulation Plan ("Plan") that were filed by CVPS on February 2, 2009, are approved.
2. On or before February 27, 2009, CVPS shall file a revised version of the Plan that is consistent with the terms of this Order (including removing all references to Amendment 1 as a proposal).

Dated at Montpelier, Vermont, this 12th day of February, 2009.

<u>s/James Volz</u>)	
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<u>s/David C. Coen</u>)	
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<u>s/John D. Burke</u>)	

PUBLIC SERVICE
BOARD
OF VERMONT

OFFICE OF THE CLERK

FILED: February 12, 2009

ATTEST: s/Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.